

VZCZCXRO5726
OO RUEHCHI RUEHCN RUEHDT RUEHFK RUEHHM RUEHKSO RUEHNAG RUEHPB
DE RUEHML #1737/01 2290934
ZNR UUUUU ZZH
O 170934Z AUG 09 ZDS
FM AMEMBASSY MANILA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 4903
RUEHRC/DEPT OF AGRICULTURE WASHDC IMMEDIATE
INFO RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE
RUCPDO/USDOC WASHDC IMMEDIATE
RUEHZU/APEC COLLECTIVE IMMEDIATE
RUEHXS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS IMMEDIATE

UNCLAS SECTION 01 OF 03 MANILA 001737

C O R R E C T E D C O P Y/ ADD SENSITIVE CAPTION

SIPDIS
SENSITIVE

STATE FOR EAP/MTS, EAP/EP, AND EEB/TPP
STATE PASS USTR FOR BWEISEL AND KEHLERS
STATE ALSO PASS USAID, OPIC
USDA FOR ONA, OTP
TREASURY FOR OASIA
USDOC FOR 4430/ITA/MAC

E.O. 12958: N/A

TAGS: [EAGR](#) [ETRD](#) [EINV](#) [ECON](#) [PGOV](#) [PREL](#) [RP](#)

SUBJECT: Regional Free Trade and U.S. Agriculture Exports

MANILA 00001737 001.2 OF 003

11. (U) Summary: Scheduled January 2010 tariff reductions under ASEAN-centered free trade agreements may reduce the \$1.7 billion of U.S. food and agricultural exports to the Philippines. Secretary Clinton's July 22 speech on the U.S. intent to participate fully in the region was welcomed by AmCham members, who noted that the free trade area centered on ASEAN will soon encompass much of the world's people and production capacity. End Summary.

ASEAN Free Trade Agreement Impact on U.S. Ag Exports

12. (U) Under the Association of Southeast Asia Nations (ASEAN, composed of Brunei Darussalam, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam) Free Trade Agreement (AFTA), all tariff rates on all products (with special protocol exemptions for a very few hyper-sensitive products such as rice) in the ASEAN region will fall to between zero and five percent by 2010. Several types of U.S. agricultural exports to the Philippines will face higher tariffs than competing products imported under the lower Common Effective Preferential Tariffs (CEPT) of AFTA:

(a) Poultry/Pork products: Beginning January 2010, ASEAN-origin processed and fresh or frozen pork and poultry products may enter the Philippines at a 5 percent tariff while U.S. products will still face most favored nation (MFN) tariff rates of between 30 and 40 percent in addition to tariff-rate-quota restrictions. U.S. exports to the Philippines of poultry meat were about \$20 million and of pork about \$54 million in 2008.

(b) Corn: Under AFTA, corn tariffs will go down to 5 percent by 2010 versus an MFN rate of 35-50 percent applied to U.S. corn.

(c) Packaged Food Items (soups, peanut butter, biscuits, fruit juices): The majority of U.S. packaged food items have duties between 3-15 percent compared with products entering under the AFTA at 0-5 percent duty.

(d) Frozen french fried potatoes: Starting in 2012, French fries will be levied a 5 percent duty under AFTA, while U.S. french fries will face an MFN rate of 10 percent.

ASEAN-Australia-New Zealand Free Trade Agreement

13. (U) The ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) signed in February this year provides products from Australia and New Zealand with the same lower tariffs as ASEAN-origin products. U.S. wheat, beef, and dairy exports to the Philippines face direct competition from Australian and New Zealand products and will be disadvantaged as a result of the new tariff regime:

(a) Wheat and Wheat Flour: Beginning January 2010 under the AANZFTA, foodgrade wheat may enter the Philippines duty free, compared with a 3 percent MFN tariff rate for U.S. wheat. Wheat flour duties will drop to zero in 2011 under AANZFTA.

(b) Dairy Products: Starting in 2010, milk powder, cheese and buttermilk from Australia and New Zealand can enter the Philippines duty free. On the other hand, U.S. milk powder will have a MFN duty of 1 percent; cheese and buttermilk face a 7 percent MFN duty.

(c) Fresh Fruits: Under AANZFTA, fresh fruits such as apples, grapes, kiwifruit, and cherries will be duty-free starting 2011 while U.S. apples, grapes, and cherries will continue to face an MFN duty of 7 percent.

(d) Beef: By 2012, beef and live cattle under AANZFTA will be able to enter duty-free while those coming from the U.S. are subject to 10 percent and 3 percent MFN tariff rates, respectively.

(e) Packaged Food Items (soups, peanut butter, biscuits, fruit juices): The majority of U.S. packaged food items face a Philippine duty of between 3-15 percent compared with products entering under the AANZFTA which will face only 0-5 percent duty.

(f) Frozen french fried potatoes: As was noted for ASEAN-origin products, Australian and New Zealand-origin french fries can also enter the Philippines duty-free starting in 2012 while U.S. french fries will continue to face an MFN rate of 10 percent.

MANILA 00001737 002.3 OF 003

(g) Wine: By 2015, wine from AANZFTA-member countries will be able to enter the Philippines duty-free, compared to the 7 percent MFN tariff for wines from the U.S.

(h) Liquid milk, butter and beef offal: Under the AANZFTA, liquid milk, butter & beef offal will be duty-free by 2019, while U.S.-origin products will still have 3 percent, 7 percent and 7 percent MFN tariffs, respectively.

ASEAN-China Free Trade Agreement

14. (U) Meanwhile, the Philippines and China eliminated tariffs on more than 210 agricultural commodities in January 2006 under the memorandum of understanding covering the Early Harvest Program (EHP). The EHP is a free trade agreement under the framework of the ASEAN-China Free Trade Agreement (ACFTA) and covers unprocessed agricultural products, in particular, livestock, meat, fish, dairy products, live plants, vegetables, fruits and nuts:

(a) Vegetables: Under EHP, duties have been reduced to zero since 2006 for dried vegetables, leguminous vegetables, as well as artichokes and brussels sprouts. On the other hand, dried peas from the U.S. face a MFN rate of 3 percent.

(b) Fresh Fruits: Apples have been singled-out for duty-free treatment under the Philippine-China EHP since 2006. On the other hand, a 7 percent MFN tariff applies to U.S. apple imports into the Philippines.

15. (U) Duties for some vegetables have already been reduced under the ASEAN-China Free Trade Agreement. The Benguet Farmers' Federation Inc. (BFFI), which produces and supplies the majority of Philippine highland vegetables, has admitted difficulty in competing with imported vegetables from China. Increasing farm input and marketing costs have been compounded by the entry of smuggled

Chinese vegetables. The BFFI has concerns over how to compete with more entry of additional (i.e., beyond the EHP) duty-free vegetables from China next year.

16. (U) In spite of domestic opposition from some local agricultural interests, in June 2009 Philippine President Gloria Macapagal-Arroyo announced that the Philippines would implement its AFTA tariff commitments as scheduled in January 2010.

Wheat is the Single Most Important U.S. Ag Export

17. (U) Wheat accounts for much of the \$1.7 billion of U.S. agricultural exports to the Philippines, with over \$700 million in U.S. bulk wheat shipped to the Philippines in 2008. The Philippine government temporarily scrapped the duty on all wheat imports from December 2008 through June 2009 to temper the impact of rising prices of imported wheat on local bread/bakery products. The tariff on imported feedgrade wheat has since reverted to 7 percent while duty free importation of foodgrade wheat has been extended for another six months or through December 2009. However, Australian wheat and wheat flour exports to the Philippines will have an advantage when tariffs on these products are eliminated in 2010 and 2011, respectively. Philippine flour milling and bakery industries have been lobbying with the Philippine government for an extension of the duty-free privilege for all wheat imports.

U.S. Companies Applaud Greater U.S. Interest in Region

18. (SBU) Some members of the American Chamber of Commerce in Manila have expressed appreciation for Secretary Clinton's July 22 remarks on the U.S. intent to be more fully involved in ASEAN affairs. However, one AmCham member then asked how this intent would be translated into concrete actions comparable to the \$10 billion "China-ASEAN Fund on Investment Cooperation" announced by China earlier this year.

Comment

19. (U) Several U.S. agricultural and food exports will be disadvantaged as regional free trade agreements take effect in January 2010, and our markets share here for those products may decline as a direct result. Post will continue to monitor this issue.

MANILA 00001737 003.2 OF 003

Kenney